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NATIONAL INTELLIGENCE DAILY CABLE

Saturday 26 August 1978 CG NIDC 78/200

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Unauthorized Disclosure Subject to Criminal Sanctions

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State Dept. review

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National Intelligence Daily Cable for Saturday, 26 August 1978.

The NID Cable is for the purpose of informing senior US officials.

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LEBANON: Maronite Massacre

25X1 [] The massacre of eight Lebanese near Batrun on Thursday was part of the continuing struggle for control of northern Lebanon between the followers of former President Sulayman Franjiyah and the Jumayyil family. Syrian forces may have become involved in the quarrel. Phalangist militia leader Bashir Jumayyil traveled to Paris yesterday, possibly to meet with the Israelis.

25X1 [] At least some of the victims of the attack at Batrun participated in the Phalangist raid on Ihdin in mid-June in which Tony Franjiyah was murdered, according to usually reliable Lebanese press sources. This suggests that the Franjiyah family was responsible for the massacre. There have been sporadic kidnappings and assassinations in the north since Tony's death.

25X1 [] The Phalangist radio has also reported that Syrian troops fought with Phalangist villagers yesterday in the northern Bekaa Valley and surrounded the Christian town of Zahlah. The Syrians are closely allied with the Franjiyahs and have long wanted to eliminate Phalangist influence in the Bekaa, which the Syrians dominate.

25X1 [] The new violence is certain to aggravate the blood feud between the Franjiyahs and the Jumayyils. The latter, and their Phalangist militiamen, are likely to seek revenge for the latest incident, and the Franjiyahs will probably be satisfied only by the death of Bashir Jumayyil. It was Bashir who planned the raid on Ihdin.

25X1 [] A close aide to Bashir told US officials in Beirut yesterday the Phalangist leader had left for Paris. It is possible that Bashir plans to meet with Israeli officials during the trip, perhaps to follow up discussions held in Israel on Wednesday between the Israelis and Christian leaders during which the Israelis reportedly urged restraint on their allies.

25X1 [] Reports of the Christian-Israeli contacts have clearly disturbed the Syrians, who apparently believe that an attack on Syrian forces in Lebanon is being prepared. The government-controlled media in Damascus have stepped up attacks on the militias and yesterday alleged that the Christians and the Israelis plan to set up an independent Christian state in Lebanon.

USSR-JAPAN: Soviet Protest

A Soviet "oral notification" delivered on Wednesday in Tokyo officially accused Japan of supporting China's anti-Soviet policy by signing the Peace and Friendship Treaty. The protest hinted at possible retaliation, but Japanese officials doubt that the USSR will take any immediate action.

The low-key Soviet protest is in line with recent public commentary. Moscow apparently wanted to record its formal objections to the treaty without risking a serious disturbance of relations.

The statement asserts that the treaty is essentially anti-Soviet, despite a contention inserted at Japanese behest that the "antihegemony" clause is not directed at any third party. The Soviets further argue that, by signing the treaty, Japan has aided China's "policy of hegemonism" and must bear the responsibility for any negative consequences in Soviet-Japanese relations.

Officials in the Japanese Foreign Ministry have privately said they do not attach much significance to the "notification" or to the recent Soviet postponement of Deputy Foreign Minister Firyubin's visit to Tokyo for working-level consultations. In Tokyo's view, Moscow intends the statement as an intermediate step that will allow the Soviets to leave their options open while they review the treaty and world reaction to it.

VIETNAM-CHINA: Border Incidents

China has charged that 200 Vietnamese soldiers intruded into Chinese territory near a major border crossing point late yesterday, beating and injuring unarmed Chinese. Vietnam charges that two Vietnamese were killed and several wounded in rioting at a nearby refugee encampment earlier in the day.

Hanoi contends that, in the first incident, Vietnamese security personnel were "encouraging" the refugees to return to their homes in Vietnam when the rioting broke out. The Vietnamese, charging that the incident was part of a "prearranged plan," allege that the Chinese used loudspeakers to urge the refugees to resist.

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[] A volatile situation has existed along the border since China moved last month to stem the uncontrolled flow of ethnic Chinese refugees from Vietnam and left thousands stranded on the Vietnamese side. A number of lesser incidents have occurred since late July.

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[] The incidents will undoubtedly be the subject of vitriolic exchanges in Hanoi at the next session of the vice-ministerial talks, where the two sides have been discussing the refugee problem. []

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EAST EUROPE: Dissidents Cooperate

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[] *East European dissidents are increasing their cooperation in an effort to provide mutual support and attract greater Western publicity. The dissidents have maintained limited private contacts in the past, but their recent activities are clearly more ambitious and presumably will lead to counteractions by East European security services. The specter of such cooperation will embarrass the national party leaderships and may provoke increased Soviet pressure for a crack-down.*

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[] Since Polish dissidents appear to be inspiring this activity, Warsaw will probably bear the brunt of Moscow's criticism. In early August, representatives of the Polish dissident movement and of the Czechoslovak Charter 77 group met in southern Poland to discuss possibilities for cooperation.

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[] In a short communique--the first of its kind issued by the East European dissidents--the conferees said that the two movements are "fraternally united in the defense of freedom, human and civil rights, democracy, social justice, and national independence." The language of the communique is more emotional than that of other Charter 77 declarations, and it contained themes suggesting that its inspiration came from the Poles. The dissidents plan another meeting for early September.

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[] The Poles provide extensive space in their underground publications for items written by Czechoslovak dissidents. Polish dissidents also appear to be encouraging Hungarian intellectuals to become more outspoken and to use *samizdat* publications to express their views. Adam Michnik, a major

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leader among the Polish dissidents, has encouraged the compilation of uncensored Hungarian literary and socio-political texts. He has also contributed a long article to a new Hungarian journal published in Paris that will include articles from Hungarians living both at home and in the West. [redacted]

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INTERNATIONAL OIL: Outlook

25X1 [redacted] *//Saudi Arabia's oil production is not likely to increase significantly for the rest of the year; as a result, available crude oil supplies worldwide will probably tighten. This is likely to strengthen the position of the member states of the Organization of Petroleum Exporting Countries that want to increase oil prices in January.//*

25X1 [redacted] *//Stagnating Saudi oil production is largely a result of the Petroleum Ministry's imposition earlier this year of restrictive operating rules. The Ministry ruled that the amount of Arab Light lifted by Aramco--the consortium that produces nearly all of Saudi Arabia's oil--could total no more than 65 percent of all the oil produced annually by the consortium.//*

25X1 [redacted] *//Because of an initial misunderstanding of how this restriction was to be applied, Aramco overlifted more than 300,000 barrels per day of this oil in the first half of 1978. It will now have to compensate by holding down production of Arab Light.//*

25X1 [redacted] *//Aramco already is producing close to capacity levels in other types of crude and does not have the flexibility for further shifts in the immediate future. As a result, demand is likely to shift to other suppliers and could temporarily tighten available crude supplies and strengthen OPEC members' support for an oil price increase.//*

25X1 [redacted] *//A large majority of OPEC members clearly favor some form of compensation for the rising cost of imports and for the declining dollar. At the next scheduled meeting of OPEC oil ministers in December, Saudi Arabia probably will be less disposed to argue for a continued price freeze than at any time in the last three years. Iran, which cooperated in holding the line against a price rise in 1978, also will favor an increase in 1979. [redacted]*

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ISRAEL: Divided Labor Opposition

25X1 [] //Israel's opposition Labor Alignment has been unable to put its house in order more than a year after being routed in the national election. In the short term, Labor leaders are biding their time in the hope that Prime Minister Begin will stumble at the Camp David summit. Over the longer haul, their prospects turn on regaining the confidence of the urban working class and the Sephardic immigrants from Arab countries who defected in droves to Begin's Likud.//

25X1 [] //The deepening stalemate in negotiations, punctuated by Defense Minister Weizman's dissent and Begin's health problems, gave Labor an opening earlier this summer to chip away at Begin's leadership. Foreign Minister Dayan's statement that Israel might eventually be willing to reach agreement on the West Bank sovereignty question, Egyptian President Sadat's public reiteration of demands for Israeli withdrawal to the 1967 borders, and his ouster of the Israeli military delegation from Alexandria, however, all had the effect of restoring confidence in Begin's "flexibility" and casting Sadat in the role of the intransigent party.//

25X1 [] //In recent days Labor has muted its criticism of Begin to avoid possible censure for undermining his position on the eve of the Camp David meetings. Party leaders, however, have continued to exhort the government to agree to West Bank withdrawals, probably in an effort to remind the public of Labor's more moderate position in the event Israelis perceive Begin's hard line as the cause of failure at the summit.//

25X1 [] //Even if Labor does score some points from a poor performance by Begin, it still must overcome major internal problems and a lack of popular appeal. Indeed, contrary to their former hopes for an early collapse of the Begin coalition, most Labor leaders now reportedly believe the party will have little chance to return to power until the next national election in 1981.//

25X1 [] //Labor's old-guard leaders remain in control, and many Israelis still associate them with the scandals that contributed to the party's drubbing at the polls. Labor's "big four"--party leader Shimon Peres, former Prime Minister Rabin, and former Foreign Ministers Allon and Eban--do not have the political appeal of Begin and Weizman with Sephardics, who now

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constitute nearly half the voters. Labor's image, moreover, continues to suffer from the bitter rivalry between Peres and Rabin.//

25X1 [redacted] //Unity is also undercut by factional differences. Most of the senior leaders of Labor and its small left-wing ally, the Mapam Party, want to maintain their decade-old ties as the basis for a political comeback. But a vocal minority of Labor Party conservatives wants to drop Mapam and its Labor supporters and form a new combination with pragmatic figures from Likud and the rump group of the Democratic Movement for Change. [redacted]

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CANADA: Economic Measures

25X1 [redacted] //Canadian Finance Minister Jean Chretien has announced a plan to forego the next round of increases in domestic oil and gas prices, originally scheduled for 1 January. The move appears to be directed mainly at combating resurgent inflation--currently running near 10 percent. The government fears that further energy price increases, in addition to rapidly escalating food costs, could lead to catch-up wage pressures and rekindle the double-digit inflation experienced in 1975.//

25X1 [redacted] //Wellhead crude oil prices will remain at \$12.75 per barrel instead of increasing \$1 per barrel as planned. Natural gas prices, currently at \$1.85 per thousand cubic feet, will be allowed to seek a new level within an as yet unspecified range.//

25X1 [redacted] //The government evidently hopes that the current gas glut will force lower prices and claims that deregulation will boost demand in the east for the growing gas surplus in western Canada. The plan may, however, simply be designed to take advantage of slack market conditions to move natural gas pricing decisions out of the political arena before the election, which is expected by early next year.//

25X1 [redacted] //Eastern oil refiners will almost certainly oppose gas price deregulation because of surplus quantities of residual fuel oil, which competes with gas in eastern markets. Alberta, Canada's chief oil and gas producer, may see the plan as the government's attempt to renege on federal/provincial

[redacted]

energy pricing agreements negotiated last year. A final decision on Ottawa's proposal must now await what promise to be difficult negotiations with the provinces. [redacted]

[redacted]

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PORTUGAL: Economic Problems

[redacted] *Portugal's next government will be hard-pressed to cope with unemployment, inflation, and a sizable current account deficit. The potential for boosting foreign exchange earnings is limited by political and social problems that discourage foreign investors and by rising protectionism and weak demand, which hamper export growth. Even under favorable circumstances, next year Portugal will have to borrow again from foreign sources.*

[redacted] The current account deficit is Portugal's principal economic constraint. Last year, higher consumer demand, increased industrial activity, and another crop failure pushed imports up despite the government's efforts to slow import growth. The current account deficit increased to \$1.5 billion, notwithstanding substantial gains in earnings from tourism and worker remittances.

[redacted] The Portuguese Government has pledged about one-third of its gold as collateral to secure foreign loans; foreign debt totaled \$4.6 billion by the end of 1977. Last year the cost of debt service equaled more than 25 percent of earnings from exports.

[redacted] Portugal has scored several notable successes this year in its quest for foreign loans, largely because of favorable response to the political moderation of the second constitutional government and its efforts to stabilize the economy. In April, the International Monetary Fund agreed to lend \$70 million provided certain policy conditions were met, and this triggered the release of credits pledged previously by several countries. In addition, private West German banks have agreed to provide \$150 million, US banks are weighing a \$300 million credit accord, and France has offered over \$90 million in investment credits.

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[] Resolution of Portugal's economic problems seems to demand a stable political situation and a government that will implement measures to reduce the current account deficit. In pursuing a path of stabilization, the government may have to brave reaction by the Communists, who can exploit any negative short-term impact on real wages, consumption, and employment to gain political advantage.

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[] Regardless of political developments, the outlook in the coming year for appreciable growth in real GNP and reduction of unemployment--now estimated to be as high as 15 percent--appears bleak. A strong government would be likely to encourage investment while curbing consumption and imports, but the net impact on demand would be restrictive. While such efforts would attract some financing from abroad, the rebuilding of investor confidence would take time, and contractionary policies aimed at slowing imports would raise unemployment and further depress real wages.

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[] A more permissive government would court a balance-of-payments crunch by allowing consumption and imports to continue rising. Foreign lenders and private investors would be scared away, and the government probably would limit state investment to slow the rises in prices and imports.

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[] If Portugal can avoid developments that would suddenly cut off foreign credits already in train, it should be able to cover its external financing requirements well into 1979 without further large gold sales. It will nevertheless be seeking large loans next year even if a new government moves ahead with stabilization measures and if agricultural recovery cuts the need for food imports. Debt service is a growing burden, and the government could not rapidly decrease the trade deficit to manageable proportions. []

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